
Measuring the Wealth of Nations

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Why measure wealth?

- Wealth measures the potential for future wellbeing
- The composition of wealth indicates the 'initial conditions' for development
- A useful model: development as managing a portfolio of assets
- The change in real wealth ('genuine' or 'adjusted net' saving) is a measure of sustainable development

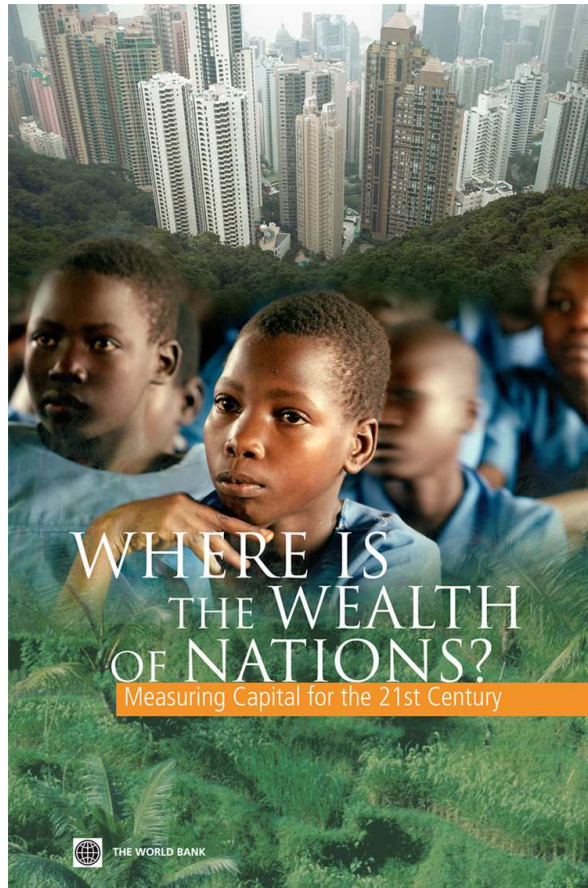


Assets and sustainability – an example from Mauritania

- During the first half of the 1980s fish catch in Mauritania grew strongly from around 20,000 tons in 1980 to nearly 90,000 tons in 1987
- Current indicators – GDP, foreign exchange earnings, and budget revenues – all grew strongly
- But the fishery collapsed from over-exploitation: exports grew at a real 7.5% per year over 1980-87, but shrank -2.3% per year from 1987-2000
- The wellbeing of Mauritians benefiting from the export fishery could not be sustained
- **Measuring assets – fish stocks – could have signaled the impending collapse**



Where is the Wealth of Nations?

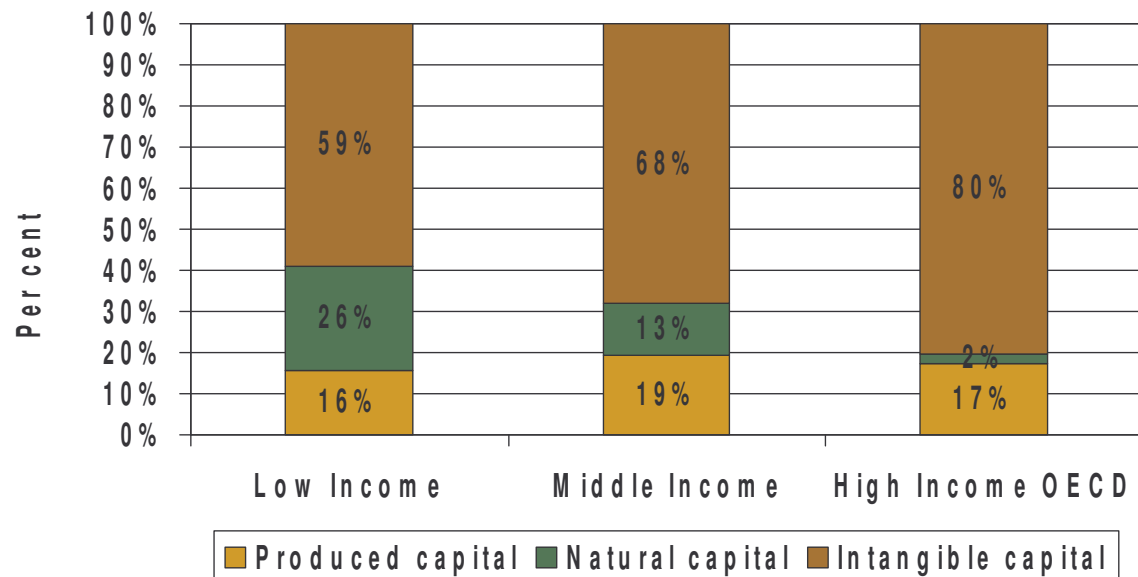


Three types of wealth, measured in over 100 countries:

- **Produced capital** – buildings, machines and infrastructure
- **Natural capital** – cropland, pastureland, forests, minerals and energy
- **‘Intangible capital’** – human capital and quality of institutions



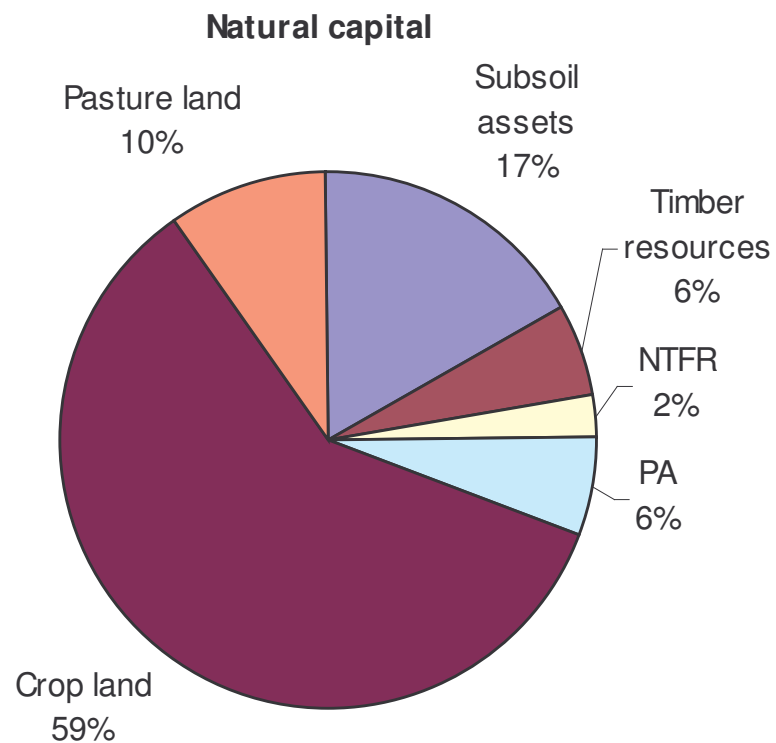
Shares of wealth across income classes



- **Intangible capital** is the largest share of **wealth** – human capital & institutional quality matter
- **Natural capital** share declines with income
- **In the poorest countries, natural capital** is a larger share of wealth than produced capital



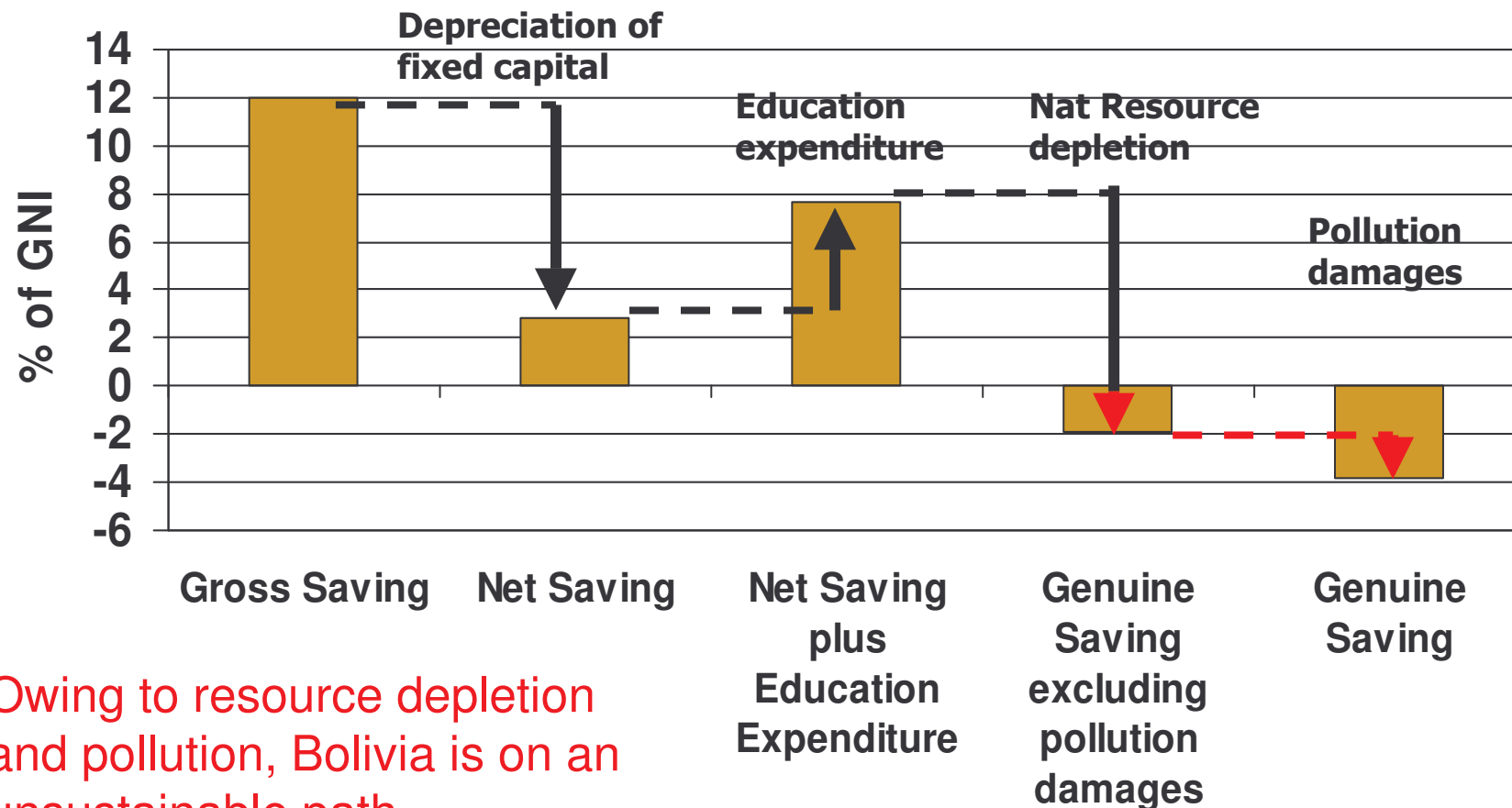
Shares of natural wealth in low income countries



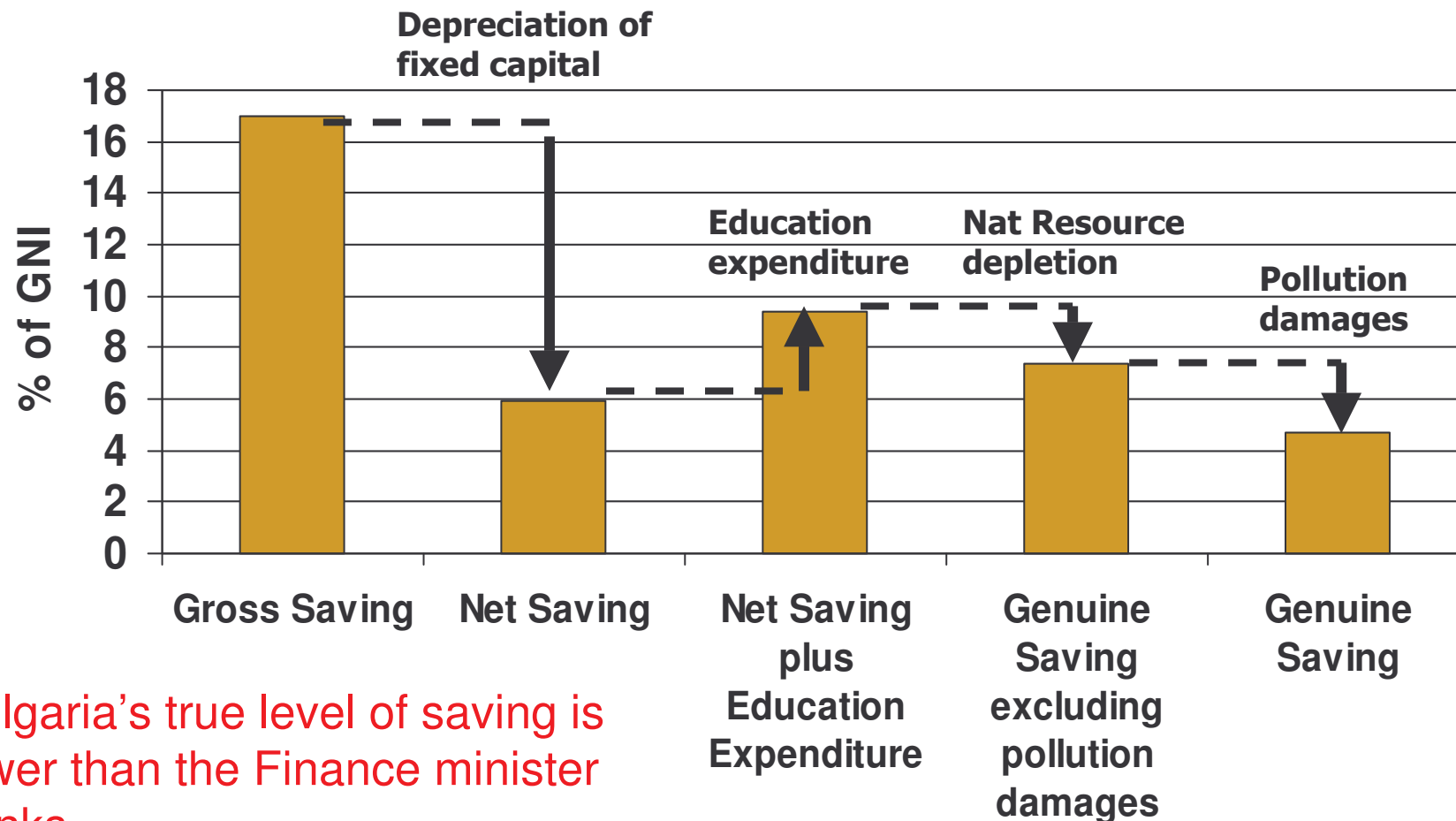
- **In low income countries agricultural land is the largest share of natural wealth**



Genuine saving (change in real wealth) in Bolivia, 2003



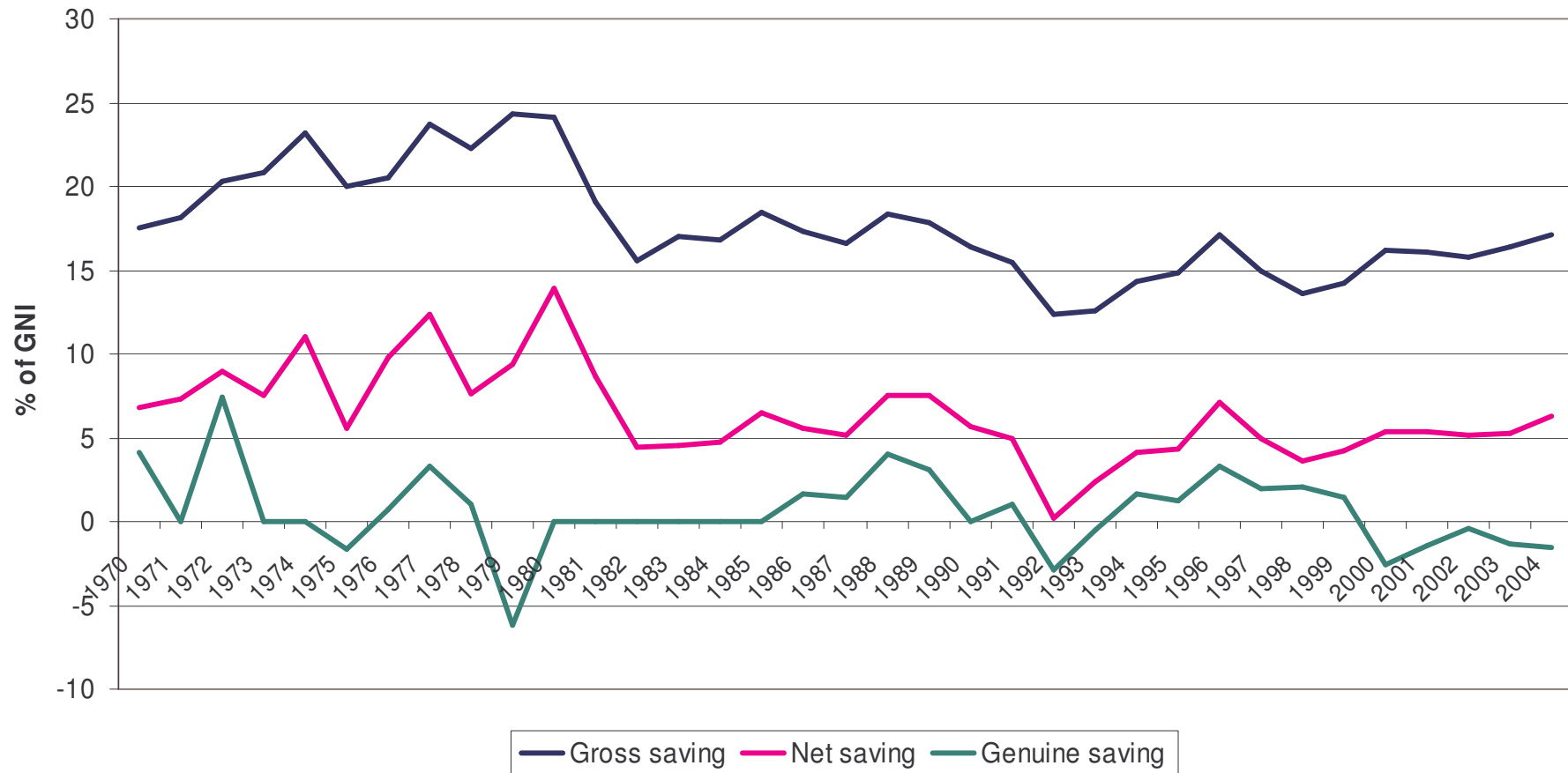
Genuine saving (change in real wealth) in Bulgaria, 2005



Bulgaria's true level of saving is lower than the Finance minister thinks



Over 3 decades, net wealth creation in Sub-Saharan Africa has been effectively zero



Tracking wealth

- The World Bank has been publishing 'adjusted net saving' since 1999
- Each year 20-30 countries have negative wealth accumulation as reported in the *World Development Indicators*
- Estimates in *Where is the Wealth of Nations?* show that when resource depletion and population growth are both taken into account, **the majority of low income countries face declines in wealth per capita**



Who uses these indicators?

- Canada – the ‘capital approach’ to SD measurement
- Norway – ‘petroleum-adjusted net saving’
- Botswana – the ‘sustainable budget index’ tracks whether resource wealth is being consumed
- Ghana – adjusted net saving as a framework for judging natural resource management



Main lessons for development

- Strengthen natural resource management in low income countries
- Pay particular attention to soil degradation
- Reduce incentives to over-exploit resources, especially living resources
- Re-invest resource revenues in other assets
- Invest in human capital and stronger institutions

